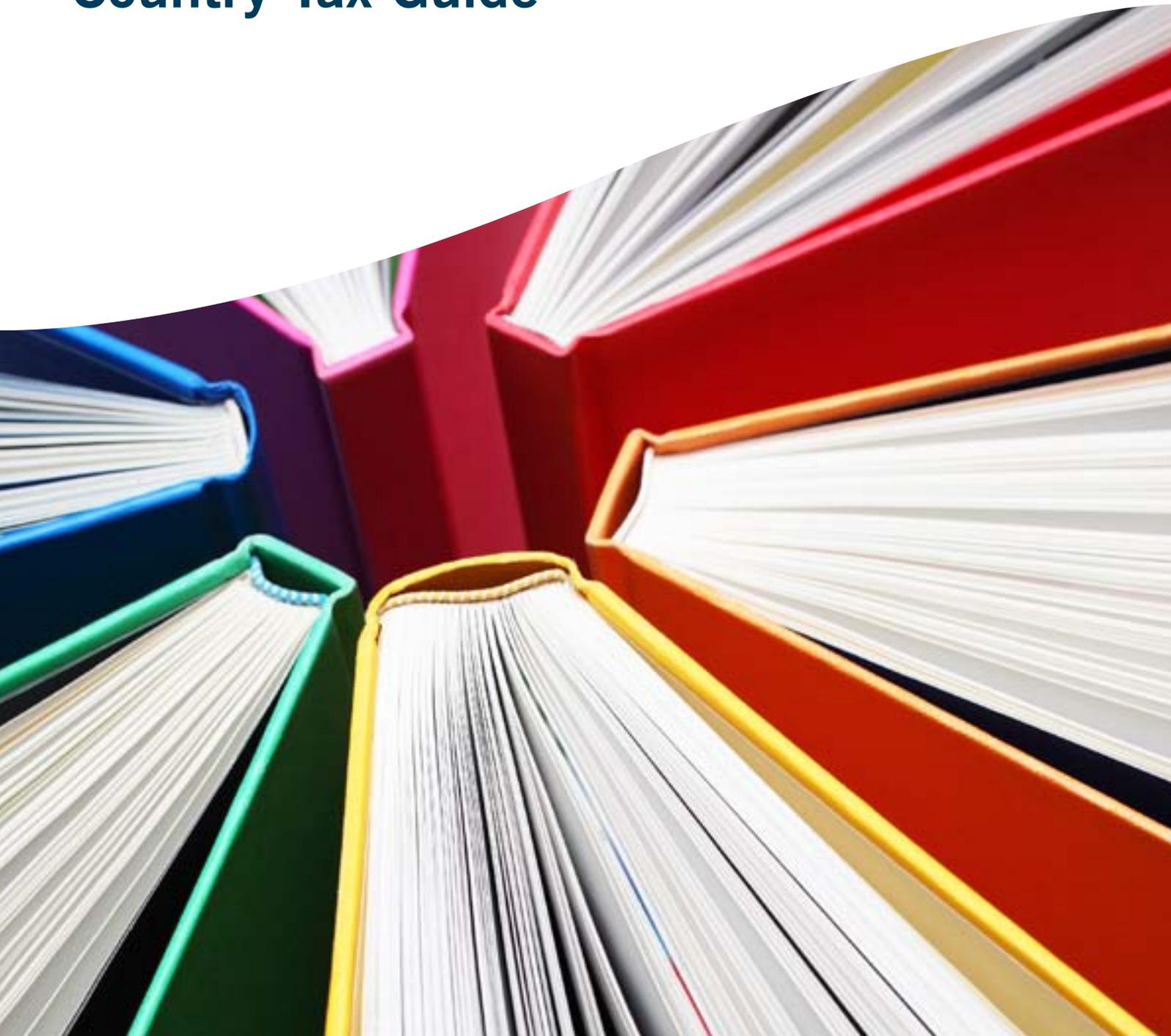


Country Tax Guide





Spain

International Tax Contacts

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Facts and figures as presented are correct as at 20 December 2016.

Corporate Income Taxes

Spanish resident businesses are subject to taxation on their worldwide taxable income. Non-resident businesses are subject to tax on their Spanish source taxable income only.

A company is considered Spanish tax resident if it is either:

- Incorporated in Spain, or
- Carries on business in Spain and has either its central management or registered office there.

Any company located in a country or territory listed by the Spanish authorities as a tax haven is considered a resident of Spain at any time that it has rights that are fulfilled in Spain, or during any period when its main activity is carried on in Spain or its main assets (whether held directly or indirectly) are located in Spain. However, a company may prove that its principal place of business is effectively outside Spain and that it was incorporated for valid business purposes other than the simple management of securities or other assets.

The countries and territories qualifying as tax havens are listed in Royal Decree 1080/1991, 5 July 1991.

The general tax rate applicable to resident companies and permanent establishments of non-resident companies is 25%. A 30% rate applies to certain financial institutions and companies in the hydrocarbon sector.

A reduced tax rate of 15% applies to qualifying small enterprises with a turnover of less than €10m in the immediately preceding tax period.

New companies benefit from a reduced tax rate of 15% for the first year in which the company makes a profit and in the following year.

Taxable income must generally include any capital gains. Capital losses can be used to reduce any current year capital gains.

Tax losses can generally be carried forward indefinitely. The amount carried forward is generally limited to the greater of €1m, or 60% of the tax base for the year (prior to the application of capitalisation reserve and compensation). A change in company ownership or business activity may restrict a loss carry-forward. Losses may not be carried back.

Corporate groups can lodge a consolidated tax return including all subsidiaries that are at least 75% owned. All transactions within a consolidated group are ignored for income tax purposes.

The tax year is the company's fiscal year. Tax returns are generally due for filing within six months and 25 calendar days after the end of the tax year.

Corporate income tax is payable in advance generally on 20 April, 20 October and 20 December. The amount to be paid is computed by applying a rate to the tax liability. The general interim payment rate is 18%, based on tax liability for the previous tax year. Companies with net revenue exceeding €10m are subject to:

- an interim payment rate of 24% (29% for financial institutions and hydrocarbon sector companies)
- a mandatory minimum prepayment of 23% of accounting profits (25% for financial institutions and hydrocarbon sector companies),

subject to exclusions and exceptions.

Personal Taxes

Spanish resident individuals are subject to tax on their worldwide taxable income. Non-resident individuals are subject to tax on their Spanish source taxable income only.

The rates and tax brackets for 2016 for residents are as follows:

Taxable Income	Tax Rate
€ – €12,450	19%
over €12,450 – €20,200	24%
over €20,200 – €35,200	30%
over €35,200 – €60,000	37%
over €60,000	45%

These tax rates consist of a national tax and an Autonomous Communities tax. Some regions have higher tax rates, which means that the maximum tax rate is higher. For example, the maximum tax rate is 49% for Andalusia, and 48% for Catalonia.

For savings income (which includes passive income such as interest, dividends and capital gains), the following rates apply for residents for the 2016 tax year:

Savings Net Tax Base	Tax Rate
€0 – €6,000	19%
over €6,000 – €50,000	21%
over €50,000	23%

For non-residents, the income tax rate is 24% (19% for residents of other EU countries).

Capital gains realised from assets sold within one year of ownership are taxed as for ordinary income. Gains realised from the sale of a taxpayer's main private residence are exempt; however, this applies to Spanish residents only, which has been challenged by the European Court of Justice as discriminating against non-residents. Gains realised on certain shares purchased in newly or recently established companies are also exempt.

Capital losses can be used to reduce any current year capital gains. Capital losses cannot be offset against income and vice versa.

No deductions are permitted for employment income obtained by non-residents without a permanent establishment (PE) in Spain, other than certain charitable donations recognised by statute. Withholding tax paid on a taxable event is deducted from the overall tax liability.

Gift and inheritance tax rates may vary between Autonomous Communities and are based on the degree of family relationship between the beneficiary and benefactor. Under national legislation, rates (after reductions) are on a sliding scale ranging from 7.65% to 34%, depending on the value of the gift/estate received by the beneficiary.

A wealth tax, which had been abolished in 2008, was reintroduced in 2011. For residents, the tax applies to worldwide assets; for non-residents it applies to Spanish assets. Generally, the first €700,000 of assets are excluded; after that, rates of between 0.2% and 2.5% apply through eight bands. Exemptions include the taxpayer's main residence up to a maximum value of €300,000.

Residents of Spain for at least 10 of the previous 15 years losing Spanish tax residency may be subject to an exit tax on unrealised capital gains on shareholdings above €4,000,000, or above €1,000,000 where the taxpayer owns more than 25% of the shareholding.

Employment Related Costs and Taxes

Social security costs

Employers and employees are required to make social security contributions of around 29.9% and 6.35%, respectively, on maximum monthly salary of up to €3,642.

Fringe benefits

Resident and non-resident employees are liable to income tax on fringe benefits earned through their employment. The market value of the fringe benefit is added to the employee's salary; the tax is then withheld at source by the employer as payroll tax.

Pensions and superannuation

Employers' compulsory contributions are considered fringe benefits enjoyed by employees and are subject to income tax. Employers' contributions are not deductible from the employers' taxable income.

Employees' compulsory contributions to pension plans are deductible up to certain limits.

Withholding tax

Domestic payments

Dividend, interest and royalty payments are generally subject to a 19% withholding tax.

There is no withholding tax on dividends paid to a company that has a share equal to or above 5% of the paying company's capital, where this share has been held over the previous year.

Payments abroad

Dividend and interest payments made abroad are generally subject to a 19% withholding tax. Royalty payments are taxed at 19% if paid to a resident of an EU/EEA jurisdiction with which Spain has provisions for the effective exchange of tax information, otherwise 24%.

Dividend and royalty payments made to connected corporate recipients within the EU are generally exempt.

For payments made to recipients in countries with which Spain has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

Value Added Tax (VAT)

VAT is levied on the supply of goods and services in Spain and on the importation of goods into Spain.

Trading entities which are required to be registered for VAT must generally charge their customers VAT of 21% on the value of their supplies. VAT registration is mandatory for all enterprises supplying goods and services in Spain.

Some supplies are taxable at reduced rates. For example, most food, agricultural and farming products, medical products and tools, prescription spectacles, sales of new houses, transportation, hotel services and services provided by artists and actors are subject to VAT of 10%. A 4% rate applies to staple foods, books, newspapers, magazines, medicines and care services provided by companies to care homes.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, although there are exceptions.

Other Taxes

Stamp duty

Stamp duty is an indirect tax levied at varying rates on:

- The transfer of assets between private individuals
- Certain corporate transactions, and
- Declarations or transactions documented and registered under seal.

The following corporate transactions are exempt from stamp duty: incorporation, capital increase, other contributions made by shareholders, and change of registered offices to Spanish territories.

Property taxes

A property transfer tax ranging from 6% to 10% applies to the sale of shares in property holding companies located in tax havens, and in situations where the VAT does not apply.

Non-resident companies usually pay a 3% tax on the cadastral value of property purchased in Spain.

Some municipalities levy a local annual tax on the assessed value of property.

Environmental taxes

There are a number of environmental taxes including for nuclear fuel and radioactive waste, the sale of electricity, petrol, gas and hydroelectricity.

Excise taxes

Excise taxes are levied on selected products, including hydrocarbon products, alcohol, alcoholic beverages and tobacco.

Tax Credits and Incentives for Businesses

Research and development (R&D) expenditure

Free depreciation can be applied to R&D expenses recorded as intangible fixed assets, and for new fixed assets and buildings acquired between 2011 and 2015 and used for R&D activities. Generally, the depreciation rate for buildings used for R&D is limited to 10% annually.

Unused R&D tax deductions can be carried forward for 18 years (see below).

Tax credits

Performing certain activities gives companies the right to subtract from their tax liability a tax credit calculated by applying a rate to the cost or expenses incurred.

Generally, the total amount of tax incentives which may be deducted against the annual corporate tax liability is limited to a percentage of the tax liability. This means that there may still be a charge for tax even if substantial tax credits are unused. Unused tax deductions can be carried forward for 15 years. Unused R&D tax deductions can be carried forward for 18 years.

The taxable liability limitation percentages applicable for 2016 are:

Type of Cost or Expense	Tax Credit
Fixed assets to protect the environment	8%
R&D expenses	25%
Technological innovation	12%
Films	20% on the first €1m; 18% on the excess

Capitalisation reserve

Companies may reduce their tax base by 10% of their increase in net equity if certain requirements are met, including:

- the increase in entity is maintained for five years
- a reserve for the amount of the reduction appears on the balance sheet

Tax relief on intellectual property

A 60% relief may be claimed in respect of qualifying income derived from the assignment of use or from the exploitation of patents, designs or models, plans, secret formulas or processes, or rights to information concerning industrial, commercial or scientific operations subject to conditions.

Exploitation of marks, literary, artistic or scientific works, cinematographic films and others are excluded.

Regional incentives

Enterprises that are resident and/or have their business in the Canary Islands have special tax advantages:

- A 50% reduction in corporate income tax payable on profits realised in the Canary Islands. There is also a 50% relief on tax liability for income generated in Ceuta and Melilla.
- Up to 90% reduction in the taxable base of undistributed profits, on condition such profits are reinvested in the Canary Islands within three years
- Reduced taxes for companies setting up in the Canary Islands Special Economic Zone.

Social security incentives

Employers are entitled to an exemption from social security contributions in respect of new employees who:

- Are under the age of 30
- Have been enrolled at the Spanish unemployment office for an uninterrupted period of 12 months during the 18-month period prior to employment
- Have no previous work experience or have work experience not exceeding three months in duration
- Receive training from the employing company, and
- Are employed on a part-time basis (up to 50% of full-time hours).

The exemption rate is 75% for companies with at least 250 employees, and 100% for all other companies. The exemption can be applied for a period of one year. This can be extended for a further year if the employee is continuing to be trained or where training was completed within the previous six months.

A social security exemption of up to 100% for 12 months is also available to employers who, following a qualifying interruption in business activity, continue to employ workers using measures such as working time reduction.

Flat social security rates of €50 or €75 generally apply in respect of newly hired, permanent part-time employees, depending on the number of hours worked. Qualifying conditions include a requirement that the employment contract be maintained for at least three years, and the new employee must result in an increase in the company's workforce. The flat rate applies for the first 24 months of employment.

Small business reinvestment tax credit

A tax credit is available for companies with an annual turnover of less than €10m. Such companies may deduct up to 10% of profits that have been reinvested in economic activity from taxable income.

Country Tax Guides are designed to provide a summary of the taxes which apply to business and individuals, and are for information purposes only. Whilst every effort has been made to ensure accuracy, information contained in these guides may not be comprehensive and is subject to frequent change. Recipients should not act upon it without seeking professional advice. Contacts details for independent members of Baker Tilly International can be found at www.bakertillyinternational.com.

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